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SUBJECT: KUWAIT POSTS LARGE BUDGET SURPLUS; CABINET APPROVES FY 2010 BUDGET

REF: KUWAIT 130

¶1. (U) Summary: The GOK has announced a USD 21 billion budget surplus for the 2008-09 fiscal year, on oil revenues of USD 68.1 billion. The actual budget surplus is likely to be considerably smaller once final expenditures are reported and the mandatory 10% of revenues is transferred to the Reserve Fund for Future Generations. It is still projected to come in at around $5 billion. Meanwhile, the caretaker cabinet has approved the FY 2009-10 budget. Although this budget projects a deficit, it should produce another surplus, assuming oil prices remain at USD 50 or higher. End Summary.

INCOME UP 67% OVER PROJECTIONS

¶2. (U) The GOK Ministry of Finance has issued preliminary results for the 2008-09 fiscal year ending March 31. The Ministry reported FY 2008-09 total income of USD 72.1 billion, 94.5% of which derived from petroleum revenues. Income was 66.7% higher than the GOK's perennially conservative projections. High oil prices in the first half of 2008 -- which topped USD 147 per barrel -- produced the record income figure. Kuwait Export Crude (KEC) averaged USD 78.50 per barrel in FY 2008-09, according to analysts at National Bank of Kuwait (NBK); the GOK's budget for the year had been predicated on an average price of USD 50.

¶3. (SBU) The GOK reported a budget surplus of USD 20.8 billion -- the tenth straight multi-billion dollar surplus -- on expenditures of USD 51.3 billion. However, the expenditures figure will increase significantly once the Ministry of Finance completes its formal accounting processes for the fiscal year, thus reducing the reported surplus. According to NBK analysts, the GOK's preliminary annual results typically show an understated expenditures figure. In the past five years, the Ministry's preliminary numbers show expenditures coming in at 73% of projected expenditures, while the final results typically come in at 93% of projected expenditures. As a result, final expenditures for FY 2008-09 will be approximately USD 65 billion, producing a surplus of approximately USD 12 billion. However, ten percent of gross revenues are allocated to the Reserve Fund for Future Generations, managed by the Kuwait Investment Authority, yielding a net budget surplus of approximately USD 5 billion. (Note: as in recent years, FY 2008-09 expenditures relating to transportation and other infrastructure projects will be approximately 25% lower than projected, due to the political and bureaucratic delays that impact almost all such projects in Kuwait. End Note).

FY 2009-10 SURPLUS LIKELY

¶4. (U) The caretaker cabinet approved the budget for FY 2009-10, which is subject to approval or rejection by the new National Assembly in the aftermath of the May legislative elections. Hewing

closely to figures presented to the National Assembly in February (reftel), the GOK predicts revenues of USD 27.9 billion and expenditures of USD 41.4 billion, resulting in a projected budget deficit of USD 13.5 billion. These projections assume an average oil price of USD 35.

¶5. (SBU) Comment: With many economists expecting oil prices to stabilize in the USD 50-60 range, the GOK is likely to enjoy yet another surplus in the current fiscal year, aided by the Government's perennial inability to complete all planned expenditures, not least in the infrastructure realm. Unknown is the predilection of MPs in the new National Assembly to push for a debt relief package for Kuwaiti citizens, which could cost billions of dollars. Until recently, the GOK had signaled wariness of any such initiative, though recent comments by Finance Minister Mustafa Al-Shamali indicate that the GOK is considering expanding the "Disadvantaged Citizens Fund," which provide debt forgiveness for certain low-income Kuwaitis. Absent any sharp increases in oil prices, however, it is likely that the GOK will be more fiscally constrained than it has been for the past few years. End Comment.

JONES